

PUBLIC SERVICE COMMISSION OF WISCONSIN

Quadrennial Planning Process III

5-FE-101

FINAL DECISION

This is the Final Decision for the statewide energy efficiency and renewable resource program's quadrennial planning period of 2019-2022 setting goals, priorities, and measureable targets for Focus on Energy (Focus).

Introduction

The Commission is statutorily obligated to oversee Wisconsin's statewide energy efficiency and renewable resource programs, known as Focus on Energy (Focus). Wis. Stat. § 196.374(3)(a). The Commission has overseen Focus since 2007. Under Wis. Stat. § 196.374(3)(b)1., the Commission is required to evaluate and set goals for the Focus programs as part of a Quadrennial Planning Process, among other statutorily identified tasks:

At least every 4 years, after notice and opportunity to be heard, the commission shall, by order, evaluate the energy efficiency and renewable resource programs under sub. (2) (a) 1., (b) 1. and 2., and (c) and ordered programs and set or revise goals, priorities and measurable targets for the programs. The commission shall give priority to programs that moderate the growth in electric and natural gas demand and usage, facilitate markets and assist market providers to achieve higher levels of energy efficiency, promote energy reliability and adequacy, avoid adverse environmental impacts from the use of energy, and promote rural economic development.

In conjunction with the Commission's obligations to continually evaluate the Focus programs, Wis. Stat. § 196.374(5m)(b) requires that the Commission ensure "that customers throughout the state have an equivalent opportunity to receive the benefits of" statewide energy

efficiency and renewable resource programs. Wisconsin Stat. § 196.374(2)(a)2. identifies specific components that must be included in the Focus programs.

The Commission's decisions in the first Quadrennial Planning Process ([PSC REF#: 141173](#)) covered the 2011-2014 period for management of the Focus program. The decisions in the Quadrennial Planning Process II ([PSC REF#: 215245](#)) are in effect for the 2015-2018 period. The decisions for the Quadrennial Planning Process III will be in effect for the 2019-2022 period.

Background

On March 24, 2016, the Commission issued a Notice of Investigation in this docket to evaluate the Focus program, and to determine its appropriate goals, priorities, and measureable targets. ([PSC REF#: 283596](#).) In the Notice of Investigation, the Commission indicated that it would follow a process similar to the one used in the Quadrennial Planning Process II docket; however, it opened this docket earlier than the previous Quadrennial Planning Process in order to provide sufficient time to determine whether to conduct an energy efficiency potential study. Two organizations, the Citizens Utility Board of Wisconsin (CUB) and the Wisconsin Paper Council (WPC), requested intervention in this docket. ([PSC REF#: 284108](#), [PSC REF#: 284291](#), respectively.) The Commission authorized a potential study in its Final Decision of April 15, 2016. ([PSC REF#: 284910](#).) A potential study was completed and delivered to the Commission in June 2017. ([PSC REF#: 328645](#).)

In its memorandum dated September 11, 2017, Commission staff sought comments on the appropriate scope of the Quadrennial Planning Process III. ([PSC REF#: 330795](#).) The Commission received comments from six organizations on the scope of Quadrennial Planning III: We Energies ([PSC REF#: 331815](#)); Clean Wisconsin (Clean WI) ([PSC REF#: 331811](#)); Wisconsin

Industrial Energy Group (WIEG) ([PSC REF#: 331812](#)); RENEW Wisconsin (RENEW) ([PSC REF#: 331816](#)); American Council for an Energy-Efficient Economy ([PSC REF#: 331817](#)); and APTIM (the current Focus Program Administrator) ([PSC REF#: 331813](#)).

The Commission issued an Order on November 6, 2017, establishing the Scope of the Quadrennial Planning Process III. ([PSC REF#: 333103](#).) The Commission found it reasonable to include the following categories and specific sub-issues in the Quadrennial Planning Process III scope:

- I. Priorities**
 - A. Emphasis between Energy and Demand
 - B. Emphasis of Business and Residential
 - C. Resource Acquisition and Market Transformation
- II. Cost-Effectiveness of Programs**
 - A. Cost-Effectiveness Test
 - B. Avoided Costs
 - C. Discount Rate
 - D. Carbon Value
- III. Programs Requiring Funding Allocation Decisions**
 - A. Renewable Energy Priorities
 - B. Continued Review/Assessment of Anaerobic Digester Program
 - C. Inclusion of Underserved Rural Areas
- IV. Utility Collaboration and Data Sharing**
 - A. Pilots for Behavioral Programs
 - B. Review Accessibility of Data from Participating Utilities
 - C. Utility Voluntary Programs
- V. Issues Related to Energy Goals**

The Commission issued a Request for Comments on a Commission memorandum on March 22, 2018. A total of 18 comments were received from the following: Clean WI; CUB;

RENEW; Industrial Customers Group (ICG), consisting of WIEG, Midwest Food Products Association (MFPA), Wisconsin Cast Metals Association (WCMA), and WPC; joint comments from the Wisconsin Utilities Association (WUA) and WPPI Energy (WPPI); Renewable Energy Joint Commenters (33 businesses, organizations, municipalities and technical colleges); Cool Choices; Repower Madison; Wisconsin Geothermal Association; Home Performance Coalition; Fair Rates for Wisconsin's Dairyland, Inc.; joint comments of Wisconsin Architects, Builders, and Contractors; Oracle Utilities; Nest Labs; Evaluation Work Group/Cadmus; APTIM; Niels Wolter; and Frank Headington, President of WCMA.

The Commission considered Quadrennial Planning decisions in two parts. At its open meeting of May 3, 2018, the Commission considered issues identified in a memorandum from Commission staff dated March 22, 2018, addressing policy and funding issues. At its open meeting of May 17, 2018, the Commission considered issues identified in a second memorandum from Commission staff dated May 10, 2018, addressing goals for the 2019-2022 period.

Findings of Fact

1. The goals, priorities and measureable targets of Focus as set forth below are reasonable and in the public interest.

Conclusions of Law

1. The Commission has jurisdiction under Wis. Stat. §§ 196.02, 196.374, and 196.395, and Wis. Admin. Code ch. PSC 137 to set and revise the goals, priorities, and measurable targets for Focus.

2. The Commission may impose any term, condition, or requirement necessary to protect the public interest pursuant to Wis. Stat. §§ 196.02, 196.374, and 196.395.

Opinion

The evaluation of technical and complex program proposals and the budget necessary to achieve the statutory goals of Focus is an area in which the Commission has special expertise. The Commission has overseen Focus since 2007 and has reviewed utility-administered energy efficiency programs for decades, prior to the establishment of Focus. During that time, the Commission has continually monitored and adjusted the programs, goals, priorities and measurable targets to ensure Focus is operating in a manner that meets the various and sometimes competing requirements established by the Legislature. The Commission's expertise and discretion in administering Wis. Stat. § 196.374 to determine what proposed program proposals are appropriate has long been recognized by the Legislature.

The present Quadrennial Planning III decisions on setting and revising goals, priorities, and measurable targets to be achieved by the Program Administrator go to the core reason why the Legislature vested authority to oversee Focus with this Commission: to bring to bear this agency's expertise and knowledge about renewable resource and energy efficiency programs, how they are designed, and the appropriate allocation of funds to the various statutory and policy objectives set forth in Wis. Stat. § 196.374. The law recognizes the great degree of discretion exercised by the Commission in making such decisions and affords deference to such decisions that possess a rational basis. Wis. Stat. §§ 227.57(8) and (10).¹

In designing, evaluating, and budgeting Focus program offerings, the Commission also exercises a legislative function in setting policies that reflect the changing nature of the utility

¹ Commission discretionary decisions that are subject to review are reviewed under an arbitrary and capricious standard. *Wis. Prof'l Police Ass'n v. Pub. Serv. Comm'n of Wis.*, 205 Wis. 2d 60, 74, 555 N.W.2d 179, 186 (Ct. App 1996). "Arbitrary or capricious conduct lacks a rational basis and is the result of an unconsidered, willful, or irrational choice rather than a 'sifting or winnowing' process." *Id.*

and renewable and energy efficiency industries, which includes the lessons the Commission has learned from its oversight of the Focus program. Evaluating whether the scope and budget of a program is appropriate to balance the various statutory goals of Focus requires a high degree of discretion and judgment, and reasonable people may reach different conclusions. Discretionary decisions contemplate a process of reasoning based on facts in the record or reasonably inferred from the record, and a conclusion based on a logical rationale founded upon proper legal standards. *Reidinger v. Optometry Examining Bd.*, 81 Wis. 2d 292, 297, 260 N.W.2d 270, 273 (1977). The Commission, as the finder of fact, must sift through all of the information and apply the statutory criteria to reach a decision. To the extent that establishing Focus programs and budgets requires the weighing of evidence, the Commission must use its special experience, technical competence, and specialized knowledge to identify a reasonable result, bearing in mind the various public policies that may be impacted by various decisions. Wis. Stat. §§ 227.57(8) and (10).

Discussion

Emphasis Between Energy and Demand

The design of Focus programs depends in part upon whether reductions in energy or demand is given greater emphasis in program design. Traditionally, Focus has been designed to prioritize the reduction of total energy usage, but has recognized that demand savings are also valuable to ratepayers. The Commission finds it reasonable to continue to establish goals for Focus based on reductions in energy use and peak demand, with more emphasis on energy use savings and resulting emission reductions.

Emphasis of Business and Residential

The Focus program currently allocates approximately 60 percent of its budget to programs for business customer classes and approximately 40 percent to programs for residential customers. This funding allocation is consistent with the historical proportion of funding collected from each type of customer and the breakdown of future energy savings opportunities identified in the potential study. It is reasonable to continue to allocate approximately 60 percent of Focus funding to business programs and 40 percent to residential programs.

Balance Between Resource Acquisition and Market Transformation

Focus has historically emphasized providing resource acquisition programs designed to maximize the amount of cost-effective electricity and natural gas savings achieved. The Commission finds it reasonable for Focus goals to continue to place primary emphasis on resource acquisition and short-term energy savings. However, it is also important to consider the effect Focus has on the development of markets for energy efficiency and renewable energy products. Qualitative targets for long-term market effects over the next 4 years should be set, and the Program Administrator shall prioritize designs that simultaneously achieve short-term energy savings while targeting longer-term market changes.

Cost Effectiveness of Programs

Cost-Effectiveness Tests

Under Wis. Admin. Code § PSC 137.05(12), Focus programs are required to pass a portfolio-level test of net cost-effectiveness, by achieving benefits equal to or greater than costs.

Several different tests are available to assess Focus' cost-effectiveness. To assess compliance with its administrative code requirement, Focus currently uses as its "primary" cost-effectiveness test a modified version of the Total Resource Cost (TRC). The TRC test is the most commonly used test in energy efficiency programs nationwide. Wisconsin modifies the standard TRC test design to add as a benefit the value of emissions avoided through the program, including carbon dioxide, sulfur oxides, and nitrogen oxides. This addition reflects that Focus' statutorily established goals include achieving environmental benefits. The Commission finds it reasonable for Focus program portfolios to continue to meet a Modified TRC Test of cost-effectiveness.

It is also appropriate to conduct the following cost-effective tests as secondary tests for informational purposes: TRC Test, Utility Test, Ratepayer Impact (RIM) Test, Expanded TRC Test, and Societal Test. The TRC Test does not include the environmental benefits that is included in the Modified TRC Test. The Utility Test measures only those costs and benefits that directly impact the utilities responsible for program funding and implementation. Benefits include avoided utility costs, while costs capture all administration, delivery and incentive costs. The RIM Test measures the effects of the program on utility rates. It compares the benefits of utility avoided costs, which reduces rates, to program costs and lost utility revenues that result from customers' reduced energy use. The Expanded TRC Test incorporates the economic benefits the program achieves via job creation, increased business revenue, and increased disposable income for consumers. The Societal Test includes all the benefits of the expanded TRC, plus additional non-energy benefits achieved from program activities. In addition to the benefits provided in the Standard, Modified, and Expanded TRC Tests, the Societal Test includes a full range of non-energy benefits experienced by participants or society as a whole,

including increased comfort, improved health (in part from reduced emissions), and lower product maintenance costs.

Avoided Costs

Electric Avoided Energy Costs

The Commission finds it reasonable that for the purposes of evaluating Focus, avoided electric energy costs shall be based on a forecasted locational marginal price (LMP) that is the average of LMPs across Wisconsin nodes.

Avoided Electric Capacity Costs

The Commission finds it reasonable that for the purposes of evaluating Focus, avoided electric capacity costs shall continue to be based on the unit costs of a peaker plant.

Natural Gas Avoided Costs

The Commission finds it reasonable that for purposes of evaluating the Focus program, avoided natural gas costs shall continue to be calculated based on Energy Information Administration (EIA) forecasts of Henry Hub prices adjusted using Wisconsin City Gate prices and retail prices to estimate avoided natural gas costs in Wisconsin.

Discount Rate

The Commission finds it reasonable to continue using a discount rate of 2.0 percent for Focus cost-effectiveness tests. This value is generally consistent with the values used in other states. It reflects the lower risk of energy efficiency and renewable investments through Focus and strikes a balance between the short-term and long-term benefits of the Focus program.

Value of Carbon

The Commission finds it reasonable for Focus cost-effectiveness tests to continue valuing avoided carbon dioxide emissions using a market-based value of \$15.00 per ton.

Renewable Energy Priorities

The Commission finds it reasonable to continue the current structure of the Renewable Rewards Program, and modify the current structure Renewable Energy Competitive Incentive Program (RECIP). The existing RECIP process shall be modified to include solicitations specifically targeted to mid-size business projects, as well as streamlined proposal requirements and a more regular recurring schedule for solicitations. The Program Administrator shall report back to the Commission by July 1, 2018 with alternatives reflecting these modifications. The Commission may also consider further modifications to the design of renewable programs as appropriate based on the findings of the Focus-funded research project on renewables programs best practices, which is due to be completed in September 2018.

Renewable Budgets for 2019-2022

The Commission finds it reasonable to establish Renewable Incentive funding of \$5.5 million per year for the 2019-2022 quadrennium, the same funding level established for 2018. The Program Administrator shall have flexibility to adjust budgets between business and residential portfolios and RECIP and prescriptive programs as the market dictates.

Continued Review/Assessment of the Anaerobic Digester Program and Inclusion of Underserved Rural Areas

In its Final Decision of December 20, 2016, the Commission authorized \$20 million in previously undesignated Focus funds to be used to fund integrated anaerobic digesters through an RFP process, and \$27.7 million for specialized programs during 2017 and 2018 designed to serve rural customers that have been historically underserved by Focus programs. Surplus funds are expected to remain in both programs at the end of 2018, including \$5 million in unobligated anaerobic digester funds, and an uncertain amount of surplus funds from the rural programs.

The Commission finds it reasonable for the Program Administrator to work with Commission staff, the Wisconsin Department of Natural Resources, and the Department of Agriculture, Trade and Consumer Protection to design a new set of proposed programs to serve agriculture customers and other rural customers in the 2019-2022 quadrennium, and provide proposed programs to the Commission by July 1, 2018. These programs shall remain in the current portfolios but tracked separate from core Focus program offerings. Funding for the programs shall include the \$5 million in unobligated digester funds, any surplus funds from the 2017-2018 rural programs, and an additional \$5 million per year allocated from general Focus collections. Focus shall coordinate with the Commission's Office of Energy Innovation on the availability of additional funding and opportunities for collaboration.

General Framework for Focus and Utility Collaboration

The Commission finds it reasonable at this time to take no formal action on establishing a framework for enhanced collaboration between Focus and utilities. Informal collaboration shall continue.

Behavioral Programs

The Commission finds it reasonable for Focus funds to be used for residential behavioral pilot programs during the 2019-2022 quadrennium, provided that the design of any programs receives Commission approval in advance of implementation.

Accessibility of Data from Participating Utilities

The Commission finds it reasonable for Commission staff to conduct further analysis on the benefits, financial costs, and other barriers associated with Focus access to utility data and report its findings and recommendations to the Commission by November 1, 2018.

Utility Voluntary Programs

The Commission finds it reasonable to take no action at this time to incorporate utility voluntary programs into a collaborative framework or to establish guidance defining appropriate voluntary programs.

Overall Energy Savings Goals and Specific Goals for Kilowatt-hours, Kilowatts, and Therms

The Commission finds it reasonable to continue setting an overall energy savings goal for Focus in millions of British thermal units (MMBtu). Minimum goal thresholds for kilowatt-hour (kWh) and therm savings shall be set equal to 90 percent of the overall goal, while the remaining 10 percent of the MMBtu goal could be met using either type of savings.

Commission and Program Administrator Goal Structures

The Commission finds it reasonable for the Commission's Focus goals to be set based on net life cycle savings and the Program Administrator's contract goals to be set based on gross life cycle savings.

2019-2022 Commission Savings Goals

The 2017 Focus potential study estimated achievable savings potential for the 2019-2022 period under a Business as Usual (BAU) scenario which assumed the continuation of Focus' current funding levels, policies, and market conditions. Because funding, policies, and market conditions have not changed significantly since the study was published, BAU savings potential can serve as the starting point for determining appropriate savings goals. Adjustments to that starting point are appropriate to incorporate savings from industrial process projects, which were underestimated by the potential study, and to assume that the program can reasonably achieve net savings equal to 75 percent of the gross savings estimated by the study. Further adjustments are appropriate to align the published results with three other determinations in this Final Decision. First, savings potential shall be increased to account for the decision to expend surplus digester and rural funds during the 2019-2022 quadrennium. Second, savings shall be increased to account for savings from renewable programs, which were not part of the potential study scope, consistent with the funding levels authorized in this decision. Third, the kWh and therm savings identified by the study shall be converted into an overall MMBtu savings goal, with minimum kWh and therm thresholds set at 90 percent of total modeled savings.

Table 1 below shows the final adjusted goals for the 2019-2022 quadrennium.

Table 1 Focus on Energy Savings Goals, 2019-2022

	Net Life Cycle (Commission Goal)	Gross Life Cycle (Program Goal)
Overall MMBtu Goal	224,666,366	299,555,154
Minimum Electric Savings Threshold (kWh) ²	22,831,730,001	30,442,306,668
Minimum Natural Gas Savings Threshold (Therms)	1,242,978,665	1,657,304,887
Electric Demand Goal (kW)	349,213	465,617

² The kWh figures differ from the staff memorandum of May 10, 2018, because the memorandum figures inadvertently used the annual calculated savings figures rather than the associated life cycle figures. The life cycle figures have been substituted here, and reflect the original and current intent of the goal calculation.

Order

1. Goals for Focus shall continue to be based on reductions in energy use and peak demand, with more emphasis on energy use savings and resulting emission reductions.
2. Approximately 60 percent of Focus funding shall be allocated to business programs and 40 percent to residential programs.
3. Focus goals should emphasize short-term energy savings. Qualitative targets for long-term market effects over the next 4 years should be set, and the Program Administrator shall prioritize designs that simultaneously achieve short-term energy savings while targeting longer-term market changes.
4. Focus programs shall meet a Modified TRC Test of cost-effectiveness.
5. The following cost-effectiveness tests shall be used as secondary tests for informational purposes: TRC Test, Expanded TRC Test, Utility Test, Societal Test, and RIM Test.
6. For the purposes of evaluating Focus, avoided electric energy costs shall be based on a forecasted LMP that is the average of LMPs across Wisconsin nodes.
7. For the purposes of evaluating Focus, avoided electric capacity costs shall be based on the unit costs of a peaker plant.
8. For purposes of evaluating the Focus program, avoided natural gas costs shall continue to be calculated based on EIA forecasts of Henry Hub prices adjusted using Wisconsin City Gate prices and retail prices to estimate avoided natural gas costs in Wisconsin.
9. A discount rate of 2.0 percent shall be used in Focus' cost-effectiveness tests.
10. Focus cost-effectiveness tests shall value avoided carbon dioxide emissions using a market-based value of \$15.00 per ton.

11. The Renewable Rewards and RECIP structure used in the prior quadrennial shall be modified consistent with Order Condition 12 below.

12. The existing RECIP process shall be modified to include solicitations specifically targeted to mid-size business projects, as well as streamlined proposal requirements and a more regular recurring schedule for solicitations.

13. Renewable incentive funding for 2019-2022 shall be \$5.5 million annually. The Program Administrator shall have flexibility to adjust budgets between business and residential portfolios and RECIP and prescriptive programs as the market dictates.

14. The Program Administrator shall work with Commission staff, the Wisconsin Department of Natural Resources, and the Department of Agriculture, Trade and Consumer Protection to design a new set of proposed programs to serve agriculture customers and other rural customers in the 2019-2022 quadrennium, and provide proposed programs to the Commission by July 1, 2018. These programs shall remain separate from core Focus program offerings. Funding for the programs shall include the \$5 million in unobligated digester funds, any surplus funds from the 2017-18 rural programs, and an additional \$5 million per year allocated from general Focus collections.

15. Focus funds may be used for residential behavioral pilot programs during the Quadrennial Planning Process III programming, but any proposed behavioral program design shall be returned to the Commission for approval in advance of implementation.

16. An overall energy savings goal shall continue to be established for Focus. Minimum kWh and therm thresholds shall be set equal to 90 percent of the overall goal.

17. The Commission's Focus goals shall be set based on net life cycle savings and the Program Administrator's contract goals shall be set based on gross life cycle savings.

18. Total quadrennial savings goals for Focus on Energy shall be based on the Focus potential study, with adjustments to account for program activities that were not addressed by the study and align the study with subsequent Commission decisions. Final savings goals are provided in Table 1 of this Final Decision.

19. This Final Decision is effective one day after the date of service.

20. Jurisdiction is retained.

Dated at Madison, Wisconsin, the 6th day of June, 2018.

By the Commission:

A handwritten signature in black ink, reading "Steffany Powell Coker". The signature is written in a cursive, flowing style.

Steffany Powell Coker
Secretary to the Commission

SPC:JAS:jlt DL: 01635937

See attached Notice of Rights

PUBLIC SERVICE COMMISSION OF WISCONSIN
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**NOTICE OF RIGHTS FOR REHEARING OR JUDICIAL REVIEW, THE
TIMES ALLOWED FOR EACH, AND THE IDENTIFICATION OF THE
PARTY TO BE NAMED AS RESPONDENT**

The following notice is served on you as part of the Commission's written decision. This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

PETITION FOR REHEARING

If this decision is an order following a contested case proceeding as defined in Wis. Stat. § 227.01(3), a person aggrieved by the decision has a right to petition the Commission for rehearing within 20 days of the date of service of this decision, as provided in Wis. Stat. § 227.49. The date of service is shown on the first page. If there is no date on the first page, the date of service is shown immediately above the signature line. The petition for rehearing must be filed with the Public Service Commission of Wisconsin and served on the parties. An appeal of this decision may also be taken directly to circuit court through the filing of a petition for judicial review. It is not necessary to first petition for rehearing.

PETITION FOR JUDICIAL REVIEW

A person aggrieved by this decision has a right to petition for judicial review as provided in Wis. Stat. § 227.53. In a contested case, the petition must be filed in circuit court and served upon the Public Service Commission of Wisconsin within 30 days of the date of service of this decision if there has been no petition for rehearing. If a timely petition for rehearing has been filed, the petition for judicial review must be filed within 30 days of the date of service of the order finally disposing of the petition for rehearing, or within 30 days after the final disposition of the petition for rehearing by operation of law pursuant to Wis. Stat. § 227.49(5), whichever is sooner. If an *untimely* petition for rehearing is filed, the 30-day period to petition for judicial review commences the date the Commission serves its original decision.³ The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

If this decision is an order denying rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not permitted.

Revised: March 27, 2013

³ See *Currier v. Wisconsin Dep't of Revenue*, 2006 WI App 12, 288 Wis. 2d 693, 709 N.W.2d 520.